

A Guide to the 1031 Exchange Process



Hi, my family owns an investment property that we're selling just like you! Originally, our biggest concern was having to pay capital gains taxes, which we consider a **guaranteed loss**.

Instead, we've decided to defer paying taxes through a process called **1031 exchange**, and now we're working with *Net Lease Realty Partners* to find our perfect 1031 exchange replacement property.

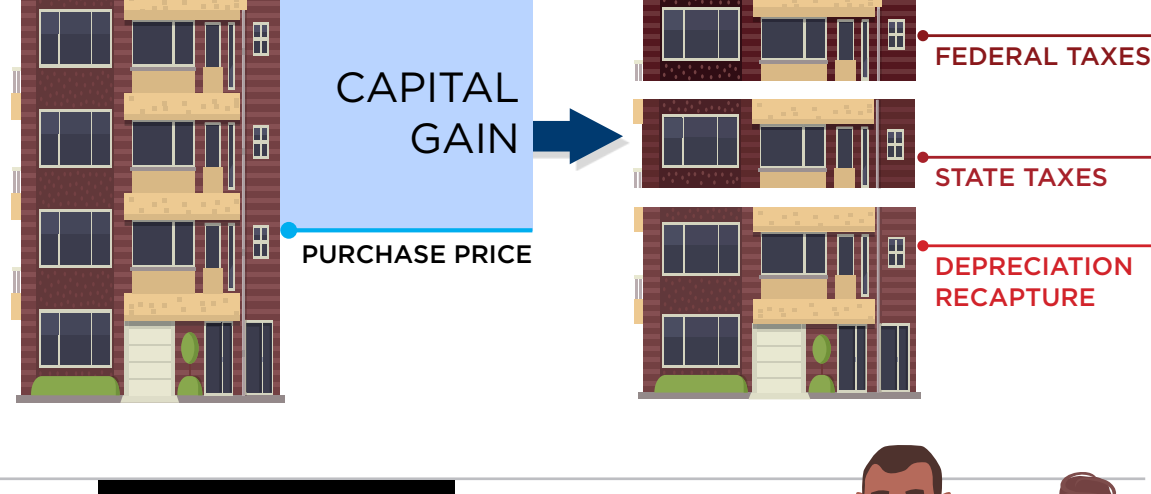
Let's take a closer look at how this process works and how it can benefit you!

TRADITIONAL SALE VS 1031 EXCHANGE

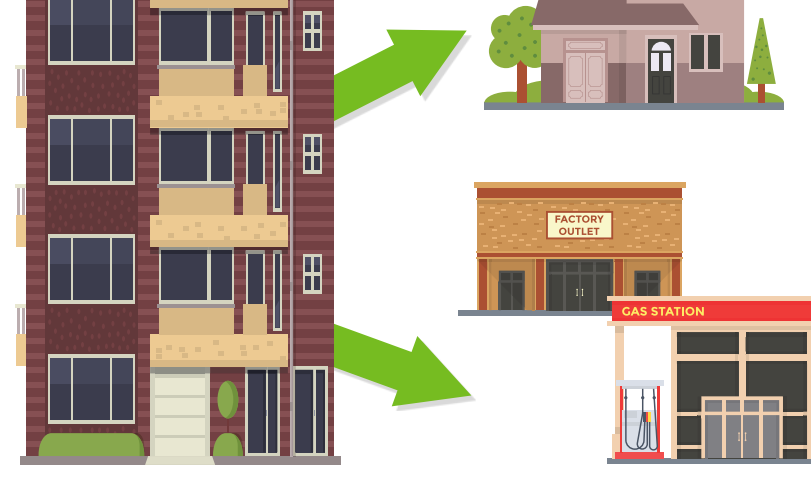
Traditional Sale:



If we sell our investment property without completing a 1031 exchange, **our taxes could exceed 20-35%** of the capital gain!



1031 Exchange:



Using a 1031 exchange, we can reinvest all of the proceeds from the sale of our investment property and defer paying all those taxes until a later date or **even indefinitely**. This allows us to **keep 100% of our capital working for us!**



GENERAL RULES OF A 1031 EXCHANGE

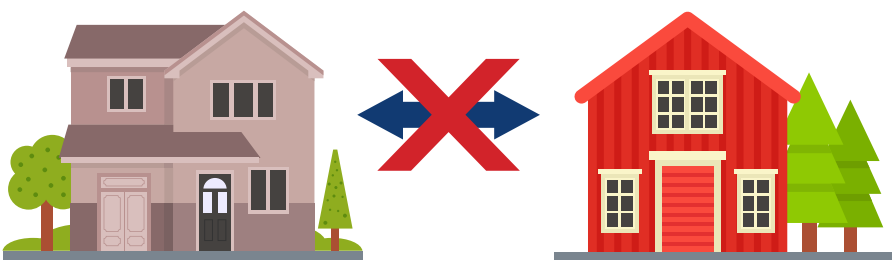
1 Properties Must Be "Like-Kind"



The **two major exceptions in a 1031 exchange** are our personal residence and our second or vacation home (which has no rental income). These aren't considered to be of "like-kind" to any real estate held for investment or business purposes so cannot be used in a 1031 exchange. There are however certain other tax shelters that apply to the sale of one's personal residence.

In a 1031 exchange, the replacement property must be *"like kind"* to the relinquished property. The good news is that generally, any real estate held for investment or business purposes in the United States is considered *"like kind"*. The difference in type, grade and quality doesn't matter.

For example, you can exchange your multi-family rental property for a larger apartment building, or exchange into a commercial property instead.



2 All Proceeds Must Be Reinvested



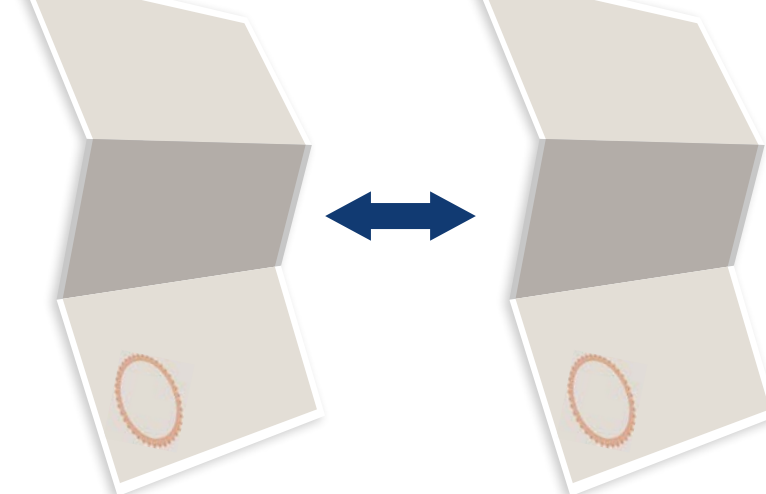
To avoid paying any capital gains taxes we need to reinvest all of the proceeds from the sale of our investment property. In other words, the value of the replacement property must be equal to, or greater than, the value of the relinquished property in order to defer paying any capital gains taxes. We do have the ability to pull proceeds out of the exchange (partial exchange), but we'll be subject to capital gains tax on any proceeds that we chose to receive from our sale.



3 Titles Must Be Identical



The ownership entity on title for the replacement property must be identical to ownership entity on title for the relinquished property.



1031 EXCHANGE OVERVIEW

STEP 1: MAKE A GAME PLAN

Once we decide to, or are in the process of, selling our investment property we'll get our free consultation with Net Lease Realty Partners. This is a crucial step where we'll tell them more about our family and our investment goals and parameters. NLRP will tailor the perfect strategy that works for us!

STEP 2: FIND & IDENTIFY REPLACEMENT PROPERTIES

Once all of the contingencies to the sale of our relinquished property have been removed and we're within a week or two of closing, we should begin evaluating specific sites and writing offers on prospective replacement properties. We can also wait to start writing offers until our relinquished property closes, but keep in mind you have 45 days from the close of your sale to identify prospective replacement properties using the rules below:

STEP 3: FIND PROPERTY

Once the qualified intermediary holds the proceeds from the sale, we'll work with Net Lease Realty Partners to find suitable replacement properties to identify.

STEP 4: BUY REPLACEMENT PROPERTY

Once we have worked with NLRP to review all due diligence and we have decided which of the identified properties to acquire, NLRP will work to walk us through the closing process. NLRP does a great job of working alongside our Real Estate Attorney, Accountant, and 1031 Exchange Accommodator to ensure everyone is on the same page! Most importantly NLRP also works with you after the closing to do things like organizing a digital file for the property and helping you get the new rent payments set up!

1031 EXCHANGE TIMELINE

From the day we close escrow on the sale of our investment property with NLRP, the clock starts on our 1031 Exchange Timeline. We now have 45 calendar days to identify a possible replacement property and 180 calendar days (including weekends and holidays) to close escrow on it. We need to make sure not to miss these deadlines because the IRS is very strict.



PROPERTY IDENTIFICATION RULES

3-PROPERTY RULE

We can identify up to 3 replacement properties and complete our exchange by purchasing either one (or all) of them, regardless of their total value.

200% RULE

We can also identify more than 3 replacement properties and buy as many of these properties as we want, so long as their total value doesn't exceed 200% of the value of our relinquished property.

95% RULE

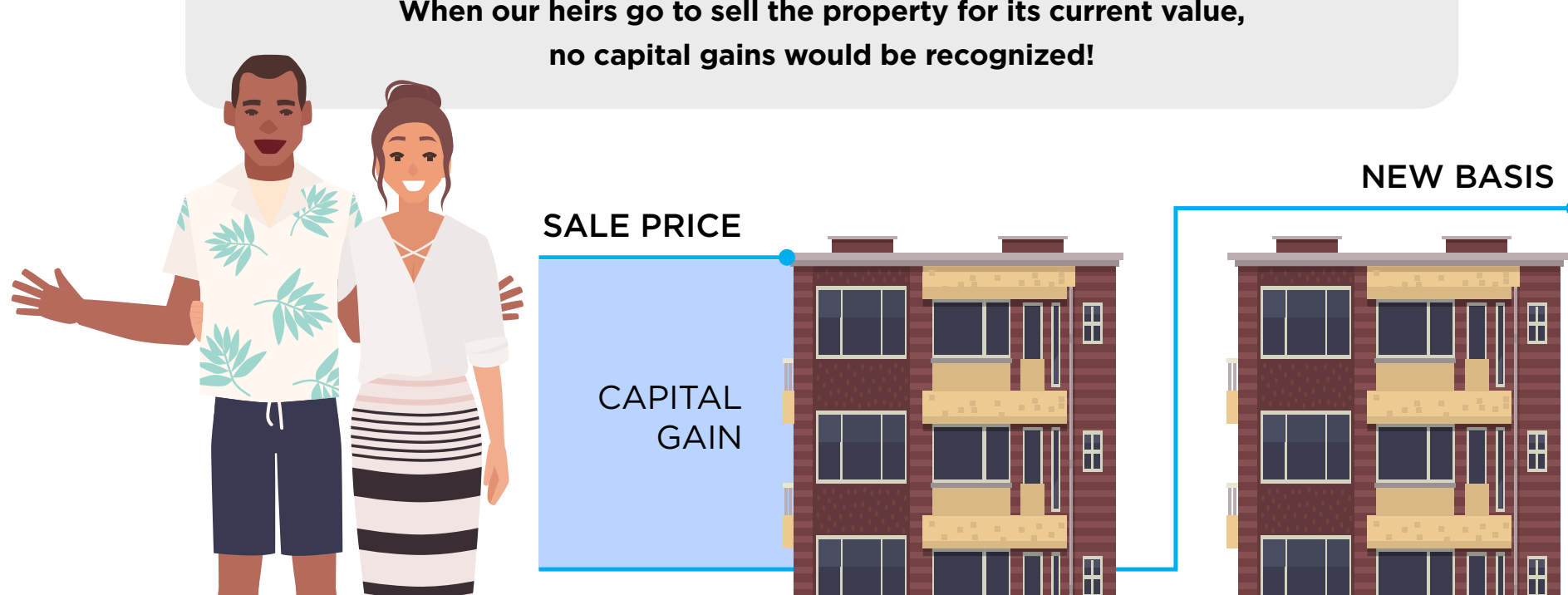
If neither of the other 2 rules fit our needs, we can also identify any number of replacement properties regardless of their total value, as long as we purchase 95% of the total value of all the properties identified.



BENEFITTING YOUR HEIRS

We can keep deferring our capital gains taxes using the 1031 exchange process until it's time to pass our assets on to our heirs. When that happens, the basis by which the capital gains are determined steps up to the current market value.

When our heirs go to sell the property for its current value, no capital gains would be recognized!



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